A781 S-1

The NFIB Foundation

Quarterly Economic Report for Small Business

Spring 1990

Quarterly Economic Report for Small Business

Spring 1990

Prepared by
The NFIB Foundation

© 1990 The NFIB Foundation

NFIB.

NFIB QUARTERLY ECONOMIC REPORT
FOR SMALL BUSINESS
(REPORT NO. 67)

The 67th in series of quarterly economic reports based on survey data obtained during April 1990 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

© 1990 The NFIB Foundation

ISSN #0362-3548

TABLE OF CONTENTS

Page

Summary of Results.....1
Outlook.....1
Credit Conditions.....4
Prices.....7
Compensation.....10
Sales.....11
Earnings.....13
Employment.....14
Inventory.....16
Capital Expenditures.....17
Single Most Important Problem.....20
Index of Small Business Optimism.....22
Regional Conditions.....22
Appendices.....27
Questionnaire.....29

SUMMARY OF RESULTS

by

William C. Dunkelberg
Temple University

William J. Dennis, Jr.
The NFIB Foundation

April's small business economic survey provided generally good news on the condition of the nation's smaller firms. No spectacularly positive developments occurred in the last three months and none were projected for the next three months. But, the same was true of negative developments. None were reported and none were expected. The steady pace of activity was summarized by the Index of Small Optimism which showed no movement between January and April (seasonally adjusted).

The month's best news was what did not happen. Press reports of a small business "credit crunch" appeared to represent isolated cases and fears of what may happen rather than what is occurring. Small business credit conditions scarcely changed (a marginal deterioration) between January and April and owners expected little change in the next three months. Prices provided additional good news. While the frequency of average price increases remained near expansion highs, plans to increase them in the next three months plunged. The same pattern developed with average employee compensation - the most frequent increases of the expansion occurred in the first quarter and were accompanied by a sharp drop in plans for the second. Earnings rebounded after trending down for six quarters, bringing yet another positive element to April's report.

Most indicators of small business economic activity were stable. Reported sales were slightly higher, but sales expectations showed no direction. Small business employment activity weakened over the winter months on a seasonally adjusted basis. April's employment numbers were little changed from January (seasonally adjusted), but the modest changes were in a downward direction. Capital expenditures ebbed from a high base while plans to make capital expenditures fell. Small business owners were satisfied with their inventory balances, but didn't plan to alter them very much. The changes planned involved net increases. The outlook improved substantially from last April though it was weaker than in January. The absolute measure of the outlook was responsible for the decline as the relative measure did not change. Perhaps the fairest summary of April's report is: overall, the small business economic condition is not bad.

Outlook

The small business outlook ebbed again on a seasonally adjusted basis. The relative measure of the outlook held steady from January. But the absolute measure fell for the second consecutive quarter. Though

both measures have gradually declined since 1984, the small business outlook stubbornly resists any thoughts of a recession.

Twenty-two (22) percent expected general business conditions to get better in the next three to six months (Table 1); fourteen percent expected them to get worse. Seasonally adjusted, the number was identical to January's figure. That made April's assessment more optimistic than or equal to the assessment made in eight of the last 12 quarters.

For two consecutive quarters in early 1989, more small business owners expected conditions to get worse than expected them to get better. That had not happened since 1980 and indicated confidence was slipping. But the measure rebounded later in 1989 as apparently did confidence, and has been in the positive column for the last three quarters.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Much Better	2	1	1	1	1	2	2
Better	21	21	17	14	19	22	20
Same	55	58	54	58	60	57	57
Worse	12	12	19	19	12	13	13
Much Worse	2	1	2	2	1	1	1
Don't Know	6	7	7	6	6	5	6
No Answer	2	*	*	*	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Aside the relatively favorable report on the outlook for general business conditions came the relatively unfavorable report on the climate for small business expansion. The datum was the most negative of the entire report. Just 17 percent believed it a good time for small business to expand its activities (Table 2). Seasonally adjusted, April's report was the second poorest of the expansion. The only one worse occurred in April, 1989.

The distribution of reasons given for believing it to be a poor time for small business expansion was similar to January's distribution. Over three of five pointed to general economic conditions as the primary reason followed by expansion costs, and sales prospects with just eight percent citing financing costs (Chart 1). The distribution of reasons given by those who were uncertain about the climate also resembled January's distribution. The change from January occurred among those believing it a good time for small business expansion. The proportion attributing their favorable view to financing conditions plummeted - from 16 percent

in January to three percent in April. The change in the number citing financing conditions appeared tied to interest rates rather than to credit availability (see, Credit Conditions).

Table 2

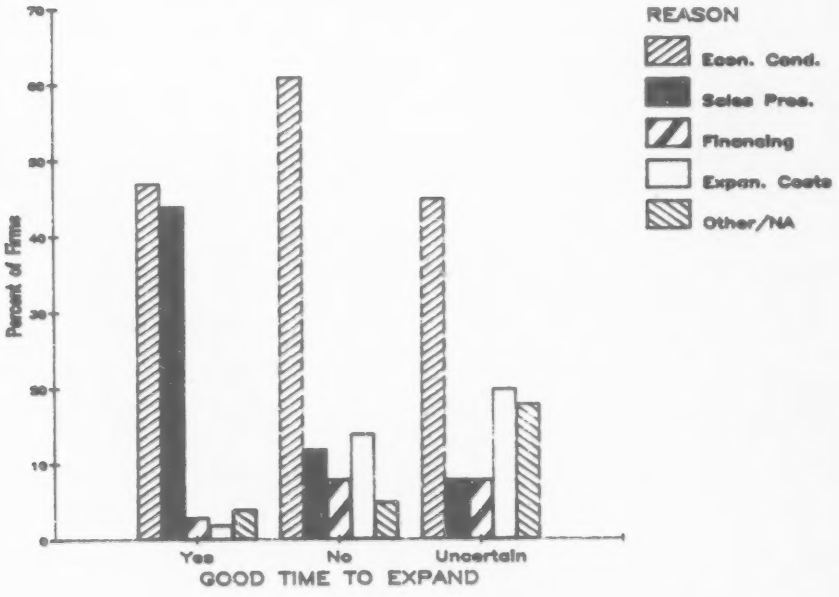
CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Yes	20	21	16	17	15	15	17
No	43	41	48	45	46	50	46
Uncertain	35	37	35	37	38	34	36
No Answer	2	1	1	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Chart 1

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION



Credit Conditions

Reports of a small business "credit crunch" appear greatly exaggerated. Neither reflective nor prospective assessments of credit conditions by small business owners suggested a national problem. However, their assessments did indicate that parts of the country - most notably New England - are experiencing rapidly changing credit conditions which are having an adverse impact (see, Regional Conditions). One important factor influencing these assessments is the comparatively modest small business demand for loans. Modest demand eases any "credit crunch" that might appear under more robust economic conditions. Thus, the impact of more intensive regulatory oversight and increased reserve requirements on the ability of small business owners to fill their credit needs cannot be dismissed. Stringent supervision of bank lending activity, particularly if lenders do not understand the new rules, could eventually result in a general credit shortage. But a national small business "credit crunch" clearly does not now exist.

A net eight percent reported loans "Harder" to get in the last three months than they had been in the three months before (Table 3). April's number is two percentage points higher than January's, but two percentage points lower than one year ago. Chart 2 presents change in the ability of small business owners to fill their credit needs. It

Table 3

AVAILABILITY OF LOANS
COMPARED TO PRIOR THREE MONTHS

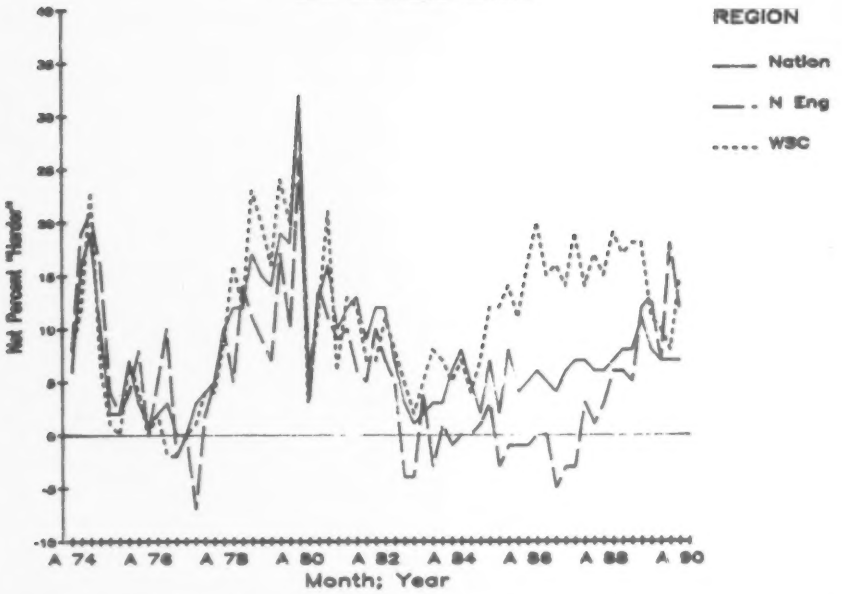
LOAN AVAILABILITY	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Easier	2	2	1	1	1	1	1
Same	27	25	27	25	26	25	24
Harder	7	7	11	8	7	7	9
Don't Know	2	2	2	1	2	3	1
Inapplicable (Don't Borrow; No Answer)	62	61	59	65	64	64	65
Total	100%	100%	100%	100%	100%	100%	100%

illustrates that credit has been somewhat more difficult to obtain as the expansion ages. It also illustrates that credit has become much more difficult to obtain in New England. Small business owners from that region now find it more difficult to obtain credit than do small business owners nationally. The trend in the West South Central region, at least until this quarter, has been the opposite. Business loans have been much harder to get in that region than elsewhere in the country. But they have recently moved closer to the national average.

No broad industry group appears more adversely affected than any other. Concern focuses on the construction industry, though small

Chart 2

NET PERCENT REPORTING IT "HARDER"
GET BUSINESS LOANS



business owners provided no evidence suggesting small contractors are having substantially greater problems than are those in other industries.

In April, just 35 percent classified themselves as "regular borrowers" (Table 4). The number equalled a survey record low established last July. Regular borrowing has declined gradually since 1979. The decline was made possible by a combination of lower inflation and better earnings - particularly after 1983. Its effect has been to reduce small business demand for debt capital relative to what it would have been. Thus, reduction in the number of "regular borrowers" influences the comparative availability of loans.

Other factors also influence the total small business demand for debt capital. Capital expenditures and earnings are the two most obvious. Both have been healthy over the last five to six years. Earnings financed a good portion of the capital expenditures made during this time. But with earnings as measured by the Index of Small Business Earnings declining in 1989, it appeared small business owners would need to visit the bank more frequently - even if they were not regular borrowers. The abrupt reversal in the Earnings Index in the first quarter of 1990 (see, Earnings) suggests that many small business owners still have the cash to finance large numbers of capital expenditures internally.

Small business borrowers saw the rates paid on their short-term (12 months or less) loans decline by 2/10s of one percent between

the fourth quarter, 1989, and the first quarter, 1990, to 12.0 percent (Table 4). However, rates were firming by quarter's end and longer term loans in particular may again be rising. Nine percent reported interest rates on all loans higher in the first quarter than in the fourth compared to four percent who reported them lower (Table 5).

Small business borrowers believed that financing conditions would deteriorate somewhat over the next three months. However, they did not forecast any imminent "credit crunch." A net eight percentage points more borrowers expected financing conditions to be

Table 4

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST RATE	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Under 10%	11	10	4	1	1	1	1
10%-12%	31	33	29	24	31	32	38
13%-15%	8	6	13	17	12	14	12
16% or More	3	2	3	2	5	3	3
Prime +1	25	25	25	29	31	29	25
Prime +2	17	21	21	23	18	17	18
Prime +3 or More	5	3	5	4	2	4	3
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	10.6%	10.8%	12.6%	12.0%	12.6%	12.2%	12.0%

*Less than 0.5%

Table 5

CURRENT INTEREST RATE COMPARED TO INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST RATES	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Much Higher	*	1	7	1	1	*	1
Higher	5	6	29	14	9	7	8
Same	22	23	4	12	18	21	21
Lower	9	5	*	7	7	7	4
Much Lower	*	*	*	*	*	*	*
Don't Know	2	1	1	1	1	1	1
Inapplicable (borrow infre-frequently;no answer)	62	61	59	65	64	64	65
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

less favorable in the next three months than they were in the previous three (Table 6). However, April's assessment was little changed from January's. One percent more felt conditions would be "harder" and one percent fewer felt they would be "easier." Expected financing conditions in April, 1990, was four percentage points more positive than it was in April, 1989.

The national total concealed an important regional variation. In January, 23 percent of borrowers in New England expected financing conditions to deteriorate over the next three months. By April the figure stood at 12 percent. The change implies that financing conditions in New England may be near bottom. That does not mean conditions will soon improve substantially. Nor does it directly account for any additional regulatory problems. But it does mean that New England small business owners, at least for now, feel that the only way is up.

Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Easier	2	2	1	1	1	2	1
Same	25	22	23	23	24	22	22
Harder	8	8	13	8	7	8	9
Don't Know	3	2	4	3	4	4	3
Inapplicable (Don't Borrow; No Answer)	62	61	59	65	64	64	65
Total	100%	100%	100%	100%	100%	100%	100%

Prices

Small business prices took a serious turn for the worse in January. The number of small business owners raising prices neared an expansion high creating fears of a renewed bout with inflation. The price numbers marginally improved in February and March. But by April, the percent reporting price increases in the last three months had nearly returned to their January level. Three pieces of April data, including expectations to raise prices in the next quarter, indicated that the frequency of selling price increases will soon decline. As a result, a substantially lower inflation rate than the first quarter's should be expected in the second.

Thirty (30) percent reported increasing average prices in first quarter compared to the fourth (Table 7). The number was just one percentage point lower than January's, but one percentage point above March's. In fact, only two quarters experienced more unfavorable price performance in the last nine years. The data are indicative of uniformly poor price performance the American economy experienced in the first quarter of the year.

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Lower Now	12	10	9	9	9	9	9
No Difference	57	57	52	59	61	59	59
Higher Now	24	30	36	29	28	31	30
Less than 1%	1	*	*	1	1	*	1
1.0-1.9%	3	4	4	3	4	4	4
2.0-2.9%	5	5	5	5	5	5	5
3.0-3.9%	3	4	5	4	3	4	4
4.0-4.9%	2	3	5	4	4	5	4
5.0-7.9%	5	8	9	6	6	6	6
8.0-9.9%	1	2	2	1	1	2	1
10% or More	3	3	4	4	3	4	3
No Answer	1	1	2	1	1	1	2
No Answer	7	3	3	3	2	1	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

The most recent price surge appears over. The country should, if it hasn't already, return to an inflation rate similar to that experienced just before late winter. Three reasons exist to warrant such optimism. The first is that those most likely to raise average selling prices in the last quarter were at the end of the production-distribution chain. Retailers (38 percent), wholesalers (36 percent) and the financial services (34 percent) were the industrial groups most apt to raise prices. The frequency of price increases in all other industries lay between 24 and 27 percent. Thus, most of the price increases beyond those embedded in the underlying rate were almost through the system by April. The rest should be through in the next quarter.

Small business price plans were also encouraging. Just 25 percent reported plans to raise average selling prices in the next three months (Table 8). April's plans represented a huge seven percentage point decline from January and a four percentage point decline from March. Since price plans are a good indicator of subsequent performance (Chart 3), a decline in the frequency of price increases should occur in the coming months. April's price plans were identical to those posted last October and continued the obvious improvement occurring since January. But despite the improvement, plans still were above the levels recorded last summer and throughout all of 1986 and 1987. Thus while the first quarter "spike" may have passed, no progress has been made on the underlying rate.

The third reason the frequency of small business price increases should fall in the second quarter is average employee compensation. Of the three reasons, however, it is the most uncertain.

Table 8

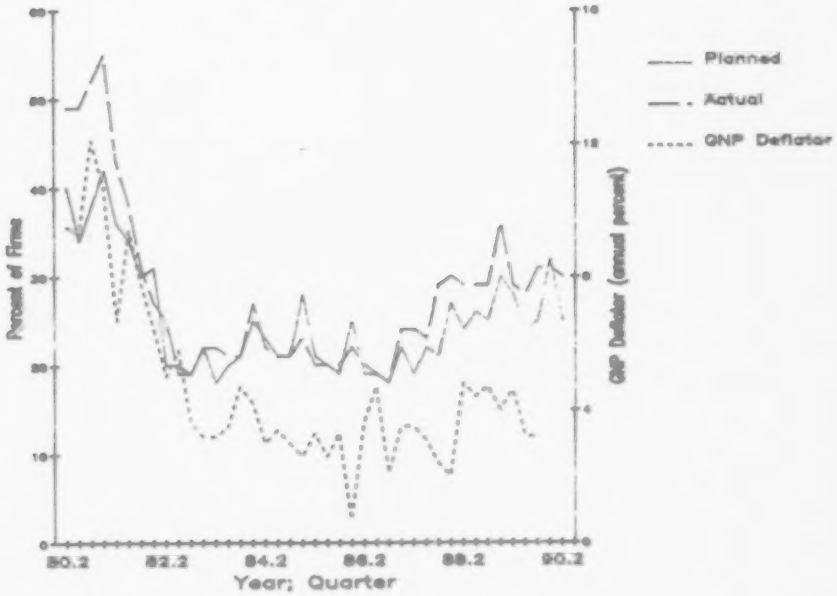
PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED PRICE CHANGES	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Lower	3	3	3	3	3	3	3
No Change	54	54	51	59	56	50	56
Increase	19	24	28	24	25	32	25
Less than 1%	1	*	*	*	1	1	1
1.0-1.9%	2	2	3	3	2	4	3
2.0-2.9%	3	3	5	4	4	5	5
3.0-3.9%	3	4	4	3	3	4	3
4.0-4.9%	5	3	4	3	4	5	3
5.0-7.9%	1	7	7	6	6	7	6
8.0-9.9%	2	1	1	1	1	1	1
10% or More	1	3	3	3	3	3	2
Don't Know	1	1	1	1	1	2	2
Don't Know	15	13	14	12	14	13	14
No Answer	9	6	4	2	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Chart 3

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES



Compensation

Growing percentages of small business owners over the last four years have reported raising average employee compensation. Under 21 percent (quarterly average) raised average compensation in 1986. A year later, the number neared 23 percent. By 1988, it was 24.5 percent and it rose again in 1989 to 25.5 percent. And, the growth hasn't stopped. The first quarter of the new decade produced the highest quarterly figure in six years. Twenty-seven (27) percent reported raising average employee compensation in the first quarter, three percentage points higher than in the fourth quarter (Table 9).

Overall increases in employee compensation have been small, but persistent. The average rise in the first quarter was 1.6 percent across all firms, a six percent annual rate.

Table 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION CHANGE	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Increased	24	24	26	26	26	24	27
1-2%	2	3	3	4	4	3	3
3-4%	7	8	7	6	8	6	8
5-6%	7	7	7	7	9	7	9
7-8%	2	2	3	3	3	3	2
9-10%	3	2	3	3	2	3	2
Over 10%	2	1	2	1	2	2	2
No Answer	*	1	1	*	*	1	1
Same	69	69	68	67	68	70	67
Decreased	2	1	1	1	*	1	1
No Answer	6	6	5	6	6	5	5
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.9%	5.6%	5.9%	6.0%	5.7%	5.8%	5.9%
All Firms	1.4%	1.4%	1.5%	1.5%	1.5%	1.4%	1.6%

* Less that 0.5%

The prognosis for even more frequent increases in the second quarter is clouded. Increases are not always most frequent in the first quarter of the year. Only twice in the last six years have average employee compensation increases been most frequent in the first quarter; three times, first quarter increases matched the year's highest quarter; once it was lower. Plans to raise average employee compensation in the next three months did fall. They declined from 26 percent in January to 22 percent in April (Table 10). But since 1987, plans have exhibited a strong seasonal variation while actual increases have shown none. Thus, planned

increases have become very difficult to interpret. Finally, pressure on employee compensation continues to rise in several places. The minimum wage went up in April; health insurance, which is part of the compensation package in nearly two-thirds of NFIB member firms, continues to rise; and, despite loosening labor markets, the demand for employees, particularly skilled employees, remains strong in most parts of the country (see, Employment).

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

COMPENSATION CHANGE	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Increase	18	20	22	18	20	26	22
1-2%	2	2	2	2	2	2	2
3-4%	6	6	6	6	5	9	7
5-6%	6	6	7	6	7	9	8
7-8%	1	2	2	2	2	2	2
9-10%	1	2	2	1	2	2	1
Over 10%	1	1	1	*	1	1	1
Don't Know	*	1	1	*	1	1	1
No Answer	1	*	1	1	*	*	*
Same	67	67	66	69	65	61	63
Decrease	1	1	*	1	1	1	1
Don't Know	10	10	10	9	11	10	12
No Answer	4	2	2	3	3	2	2
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.5%	5.5%	5.8%	5.6%	5.6%	5.5%	5.5%
All Firms	1.0%	1.3%	1.3%	1.0%	1.1%	1.4%	1.2%

*Less than 0.5%

Sales

Small business sales continued to hold up well in the new decade's first quarter. April's Index of Small Business Sales rose (seasonally adjusted) for the third consecutive quarter (Chart 4). It lay at one of the highest points in the thin tunnel which has defined the Index's limits for almost six years. Thirty-one (31) percent reported higher sales in the first quarter than in the fourth compared to 30 percent who reported them lower (Table 11). Just 10 percent saw "Poor Sales" as their single most important problem (see, Single Most Important Problem), a typical expansion figure.

The second quarter is usually the most active quarter for small business. As a result, expected real sales rose substantially between the January and April surveys. Fifty-six (56) in April

Chart 4

INDICES OF SMALL BUSINESS
SALES AND EARNINGS

expected sales to be higher in the next three months than they were in the last three; 15 percent expected them to be lower (Table 12). But seasonally adjusted, a slight decline occurred. The stability of sales expectations between January and April (seasonally adjusted) typifies what has happened to sales expecta- tions recently. In April, 1990, sales expectations were identical to those recorded one year ago though somewhat less favorable than those recorded in the same month two and three years ago.

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR
QUARTER'S DOLLAR SALES VOLUME

DOLLAR	1987	1988	1989	1989		1990	
SALES VOLUME	APR	APR	APR	JUL	OCT	JAN	APR
Much Higher	3	3	3	3	2	3	4
Higher	27	27	26	36	31	29	27
About the Same	37	41	40	40	43	40	39
Lower	23	24	25	17	20	24	25
Much Lower	6	4	5	3	3	4	5
No Answer	4	1	1	1	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED REAL SALES	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Go Up A Lot	13	13	11	6	7	7	11
Go Up A Little	45	47	45	38	36	36	45
Stay the Same	24	23	22	32	27	28	25
Go Down a Little	11	11	14	16	21	20	12
Go Down a Lot	2	2	3	3	5	5	3
Don't Know	3	3	3	3	3	4	3
No Answer	2	1	2	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Small business owners as a group are generally too optimistic in their sales forecasts. However, their forecasts accurately reflect changes in subsequent sales performance. On a seasonally adjusted basis, therefore, small business sales in the second quarter should be similar to those reported in the first.

Earnings

After trending down for a year and one-half, the seasonally adjusted Index of Small Business Earnings rebounded sharply in the first quarter (Chart 4). The Index rose to its highest point since the fourth quarter of 1988. Twenty-one (21) percent reported higher earnings in the first quarter than in the fourth; 37 percent reported them lower (Table 13).

Sales volume was the reason most often cited for higher or lower earnings (Table 14). The percentages citing sales volume were

Table 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET EARNINGS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Much Higher	2	1	1	1	1	1	2
Higher	18	19	18	25	22	18	19
Same	41	43	41	41	44	43	41
Lower	27	29	32	28	28	32	31
Much Lower	7	5	5	4	4	5	6
No Answer	5	3	3	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

typical. Other reasons offered for a change in earnings resembled patterns previously reported. However, a decreasing proportion cited factor costs as the most important reason for lower earnings. Just 19 percent identified factor costs, down 3 percentage points from the prior quarter and 8 percentage points from October. These changes preceded changes in small business selling prices by about one quarter and indicate on small business owners are currently facing fewer cost pressures than in the recent past (see, Prices).

Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH NET EARNINGS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Sales Volume	60	60	59	56	57	58	58
Higher Prices	10	10	11	8	11	9	11
Factor Costs*	8	5	7	4	7	5	4
Seasonality	14	16	12	27	18	20	19
Other; NA	8	9	11	5	7	8	8
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER NET EARNINGS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Sales Volume	43	38	39	42	45	44	45
Factor Costs*	16	23	25	27	27	22	19
Seasonality	21	26	23	15	15	23	21
Other; NA	15	16	16	16	13	11	15
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

Employment

Labor markets remain tight in many parts of the country, particularly for skilled employees. Yet, small business owners are having less difficulty finding qualified employees than they have in the recent past. One reason is that small business demand for employees appears to be ebbing. The changes in small business employment patterns so far have been modest and gradual. It is even difficult to pinpoint when they began. But, they are occurring.

Employment in the nation's operating small businesses edged higher in the first quarter. Sixteen (16) percent increased overall employment compared to 15 percent who decreased it (Table 15). After adjusting for the number of employees involved in the changes, the net increase proved minimal. While the net number does not suggest any major weakness, the rate at which net new employees are taken on is gradually declining.

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1987 APR	1988 APR	1990 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Increased	13	15	14	21	17	12	16
Seasonal	5	6	5	11	6	3	6
Non-seasonal	8	9	9	10	11	9	10
Decreased	13	13	13	11	15	18	15
Seasonal	6	4	4	2	5	9	5
Non-seasonal	7	9	9	9	10	9	10
No Change	65	69	72	68	68	70	69
No Answer	9	3	1	*	*	*	*
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	3.8	3.9	3.9	4.2	3.3	3.3	4.7
Employees decreased per firm decreasing	4.2	4.0	4.2	3.1	3.0	4.6	5.2
Average net change per all firms	-.06	+.06	-.43	+.53	+.12	-.39	+.02

*Less than 0.5%

Current job openings illustrate best the modest loosening of labor markets. Twenty-one (21) percent reported one or more job openings in April (Table 16). April's figure remained high by series standards. But, a change is in process. The frequency of current job openings reached an expansion high in October, 1988, and has slowly fallen since. Though the number with current job openings were the same in April as they were in January, they had fallen below the 20 percent mark in February and March. April represented a rebound. However, the trend is downward. The number of small firms with job openings probably will continue to edge lower through the summer even if a month or two fights the overall direction.

Twenty-three (23) percent planned to increase their labor forces in the next three months and six percent planned to decrease them (Table 17). However, after seasonal adjustment, April's level of plans produced the second consecutive quarterly decline and the poorest showing in five of the last six quarters. Small business owners in the Pacific region were the most likely to be expanding payrolls. However, growth was expected with about the same degree of frequency in most parts of the country. The two exceptions were New England and the West South Central. Plans in those regions also suggested net increases. But, the increases were so small that seasonal adjustment wiped them out.

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Yes	19	23	23	24	23	21	21
Skilled Labor	12	14	15	17	15	15	14
Unskilled Labor	3	4	4	3	3	3	3
Both	4	4	4	4	5	3	4
No	80	77	76	75	77	79	78
No Answer	1	1	1	1	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Increase	22	25	23	15	16	19	23
Keep the Same	71	68	69	74	73	72	69
Decrease	5	5	5	10	10	8	6
No Answer	2	2	3	1	1	1	2
Total	100%	100%	100%	100%	100%	100%	100%

Inventory

Small business owners added comparatively little inventory during the first quarter which combined with no change in sales brought their balances back to a satisfactory level. Seasonally adjusted inventory plans indicated that a larger net percentage were poised to add inventories in April than were in January. But, small business owners have been watching inventories very carefully. If sales do not rise above those currently expected, therefore, they may not add the inventories now planned.

Nineteen (19) percent reported net additions to inventory in the the first quarter compared to 18 percent who reported allowing them to decline (Table 18). The inventory performance over the quarter was similar (seasonally adjusted) to that recorded in the fourth quarter, 1989, and poorer than comparable quarters since 1986. Smaller net inventory additions reflect the generally poorer sales climate that existed in 1989 compared to 1987 and 1988.

Small business owners as a group were satisfied with their inventory holdings in April. Ten (10) believed their inventories "Too Low" and 10 percent believed them "Too High" (Table 19). The

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Increase	21	21	20	20	18	16	19
Same	43	44	43	44	46	43	44
Decrease	17	15	17	15	16	21	18
Not Applicable	17	18	19	20	19	20	18
No Answer	2	2	1	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

net zero percent was one of the more favorable evaluations of the expansion. This condition would normally require a positive assessment of small business inventory balances, and it does. However, April data sharply reversed January's general dissatisfaction. The change was large for the series (Chart 5) and suggested more volatility than probably desirable.

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Too Large	11	12	11	12	12	13	10
About Right	58	56	56	55	54	55	58
Too Low	10	10	10	10	10	9	10
Not Applicable	19	21	21	19	21	21	18
No Answer	2	1	2	4	3	2	4
Total	100%	100%	100%	100%	100%	100%	100%

Smaller previous additions, modestly improving sales and general satisfaction with existing balances suggest future net inventory additions. Small business owners did in fact increase the frequency of plans to make net inventory additions. Nineteen (19) percent had plans in April to increase net inventories compared to 12 percent who indicated plans to make net decreases (Table 20). That represented the third consecutive small quarterly small increase (seasonally adjusted). Any net increases probably will be modest.

Capital Expenditures

Capital expenditures made in the last three to six months ebbed seasonally and plans to make additional outlays in the next three to six months fell to their lowest point in the last two years. The capital expenditure boom recently experienced by small business

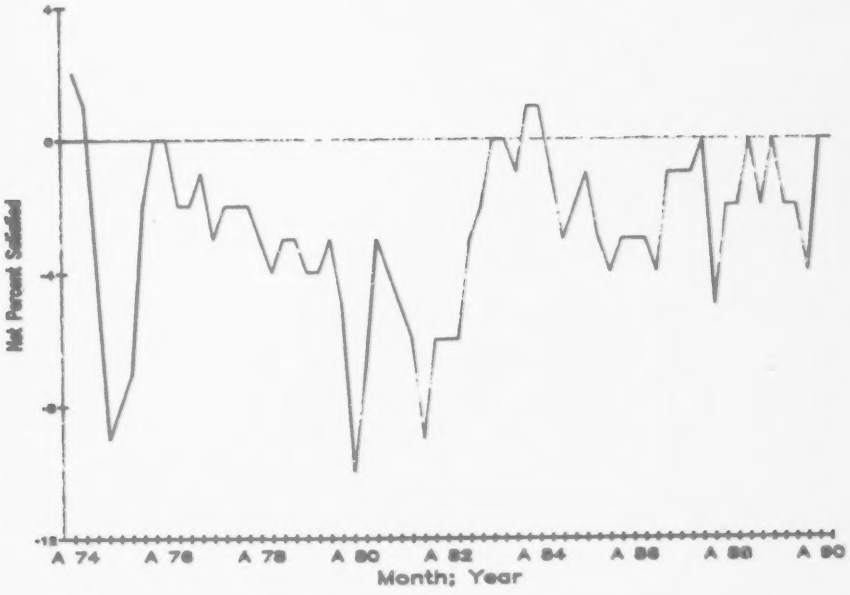
Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Add	20	20	21	16	16	22	19
No Change	47	44	44	46	44	43	47
Decrease	13	14	12	15	17	13	12
Not Applicable	18	19	20	15	17	17	15
No Answer	3	3	3	8	6	5	7
Total	100%	100%	100%	100%	100%	100%	100%

Chart 5

INVENTORY SATISFACTION



clearly slowed. Other slow-downs have also occurred in the expansion, the most recent being one year ago. However, healthy levels of capital expenditures continue to characterize this expansion.

Fifty-five (55) percent reported making one or more capital expenditures in the last three to six months (Table 21), down two percentage points from January and two percentage points from April one year ago. Expenditures on equipment and vehicles normally dictate the changes in the frequency of capital expenditures made. April was no different. Forty-six (46) percent indicated outlays for equipment and vehicles, also down two points from January and from April one year ago.

Table 21

PERCENT MAKING CAPITAL EXPENDITURES
IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1987 APR	1988 APR	1990 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
All Types+	53%	55%	57%	54%	56%	57%	55%
Equipment/ Vehicles	41	45	46	45	46	48	46
Add Buildings	7	6	8	7	6	5	6
Improved Buildings	14	16	16	15	16	17	16
Land	4	3	4	4	4	4	4

+Percent of firms making one or more capital expenditures

The relative size of total expenditures also fell. The proportion of expenditures above $100,000 fell from the prior three quarters (Table 22). Meanwhile, the proportion of expenditures under $5,000 rose.

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Under $1	8	5	6	4	7	5	7
$1 - 4	19	19	19	18	20	21	21
$5 - 9	16	15	16	13	16	15	14
$10 - 19	20	22	17	24	21	19	20
$20 - 49	18	19	18	20	16	18	19
$50 - 99	9	9	10	9	8	10	9
$100 - 499	7	8	11	11	10	10	9
$500 - 999	2	1	2	*	2	1	1
$1,000 or More	1	1	1	1	*	1	*
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Planned capital outlays tumbled in April to 32 percent, down three percentage points from January (Table 23). On a seasonally adjusted basis, April's was the poorest performance in seven quarters and the second poorest in the last ten. But, April's fall was from a comparatively high base. Plans to make capital expenditures still remained high by series norms. Thus, capital expenditures should continue to be one of the more positive elements of the small business economic condition for the next three to six months.

Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1987 APR	1988 JAN	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
Yes	32	33	33	31	31	35	32
No	52	51	52	55	54	50	52
Don't Know	12	12	11	11	12	12	12
No Answer	4	4	4	3	3	3	4
Total	100%	100%	100%	100%	100%	100%	100%

Single Most Important Problem

No single problem preoccupies small business owners. However, "Taxes" was most frequently cited as the single most important problem of smaller firms (Table 24). Twenty-three (23) percent noted "Taxes," one percentage point higher than in January. Not since October, 1984, has any other problem been cited with greater frequency.

Eighteen (18) percent cited "Government Regulation(s)/Red Tape" as their single most important problem. Those most likely to cite the problem were in the transportation/communications, financial services and professional services industries. The 18 percent tied a survey record high for the problem established in January, 1988, and equalled in January, 1990. No particular legislation or incident appears responsible for the recent relative importance of regulation and red tape. Since 1985 the number citing the problem has been relatively high. The trend has been even more pronounced in the last two years. One explanation for the rise is that as immediate, pressing problems, e.g., interest rates and poor sales, decline in relative importance, nagging problems, e.g., regulation/red tape and taxes, increase.

Much of the same rationale applies to the progressive increase in the number of small business owners citing the "Quality of Labor" as their single most important problem. The percentage citing "Quality of Labor" ebbed from January to 9 percent reflecting looser employment conditions. However, labor quality as a problem has been

cited with gradually increasing frequency over the last eight years. The difference between regulation and labor quality as problems is that the evidence indicates that labor quality concerns are much more than a reaction to declines in concern about immediate problems. They clearly reflect the increasing difficulty small employers find recruiting qualified help.

Neither the number of small business owners pointing to "Poor Sales" nor to "Inflation" suggest a major change in economic direction. Just 10 percent cited "Poor Sales" as their single most important problem, down one percentage point from January and typical of the number citing poor sales over the last two years. For almost three years prior to October, 1987 - the early part of the expansion - the proportion mentioning poor sales was higher than it is today. The change is another indication of a mature expansion with no end yet in sight.

The percent (4) citing "Inflation" has been steady over the last five quarters. With the exception of 1986 and 1987 when the figure moved in the 2-3 percent range, the proportion citing inflation has remained much the same since 1984. It did not change even when inflation temporarily spurted upward - early 1989 and early 1990. Thus, the number citing inflation appears to reflect underlying price pressures rather than temporary phenomena.

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High Date	%	Prior Low Date	%	1989 JUL Rank	%	OCT Rank	%	1990 JAN Rank	%	APR Rank	%
Taxes	7/88+	25	10/74	8	1	21	1	22	1	22	1	23
Inflation	10/74	41	10/87+	2	8	4	8	4	8	4	8	4
Poor Sales	10/82	23	1/75+	1	3	10	3	11	3	11	3	10
Interest Rates & Financing	4/82+	37	7/77	4	3	10	6	7	6	7	6	7
Cost of Labor	7/77	9	7/82	2	7	7	7	6	6	7	6	7
Government Regulation(s)/ Red Tape	1/90+	18	7/82+	4	2	17	2	17	2	18	2	18
Competition from Large Business	10/76	13	4/80+	4	3	10	3	11	4	10	4	9
Quality of Labor	10/88+	12	1/83+	3	3	10	3	11	4	10	4	9
Shortage of Fuel Material, Goods	1/74	23	1/90+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	11	-	11	-	11	-	13
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
\+ Most recent

Index of Small Business Optimism

The seasonally adjusted Index of Small Business Optimism nosed up 0.1 points between January and April. April's Index stood at 100.8 (100=1978) (Table 25), similar to levels registered over the past five years. Since January, 1985, the Index has moved in a thin tunnel bounded by a 99.5 score on the low side and a 102.9 score on the high side (Chart 6). The comparable series scores have been 81.1 and 108.7 respectively. Thus, April's Index extends the current pattern and indicates that no major changes in national economic activity should be expected in the coming three months.

Table 25

INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX COMPONENTS	1987 APR	1988 APR	1989 APR	1989 JUL	1989 OCT	1990 JAN	1990 APR
General Expectations[1]	117.0	117.5	110.3	107.8	108.3	109.3	114.4
Current Status[2]	101.3	101.7	101.3	106.0	104.4	100.0	101.3
Spending Plans[3]	119.0	119.7	120.0	112.3	112.0	118.3	118.7
Index*	112.8	113.4	110.5	108.6	108.1	109.2	111.9
Index (1978=100)+	101.7	102.3	99.5	99.8	102.1	100.7	100.8

*Index numbers
+Seasonally Adjusted
[1]Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions
[2]Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings
[3]Plans to Hire, Make Capital Expenditures, Add to Inventories

Regional Conditions

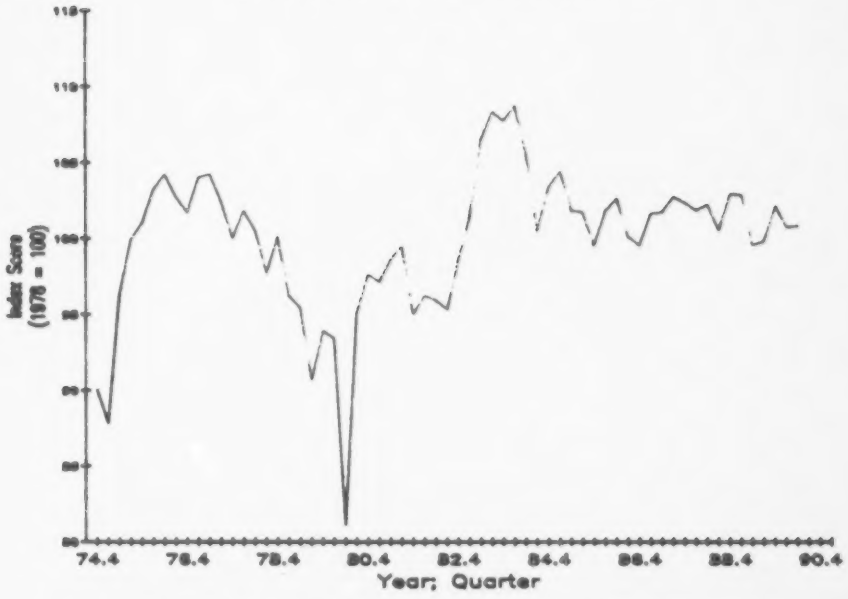
In April, small business owners in the Pacific, Mountain and Great Lake regions produced Indices of Small Business Optimism above the national average. Those in the New England, Mid-Atlantic, and Plains regions produced them below. Small business owners in the remaining three regions - South Atlantic, East South Central, West South Central - approximated the national average.

April's Index was higher than January's (seasonally adjusted) in six of the nine regions and higher than last April's in five of the nine. The Index for the South Atlantic region did not change compared to January or to last April. Small business owners in the Pacific region produced the nation's highest Index which improved on January, but showed no change in a year's span. New England and Mid-Atlantic small business owners produced an April Index lower than both January's and April's one year ago.

A theory currently fashionable suggests that the United States will experience far fewer (or no) national recessions in the years

Chart 6

INDEX OF SMALL BUSINESS OPTIMISM



ahead. Recessions as we know them will be replaced by rolling regional and industry down-turns. The small business data collected in this survey give some credence to the theory. They indicate that the relative fortunes of small business in various parts of the country change, often dramatically, over time. One or two regions "ride high" for period and then fall. They are replaced by others.

Small business in every region has not experienced such "ups" and "downs" over the 17 years these data have been collected. A few have experienced little relative change. But that only serves to underscore the changes occurring elsewhere.

Charts 7, 8, and 9 present the relative fortunes of small business owners in each of the regions. They graph each region's Index as a ratio of the national Index.

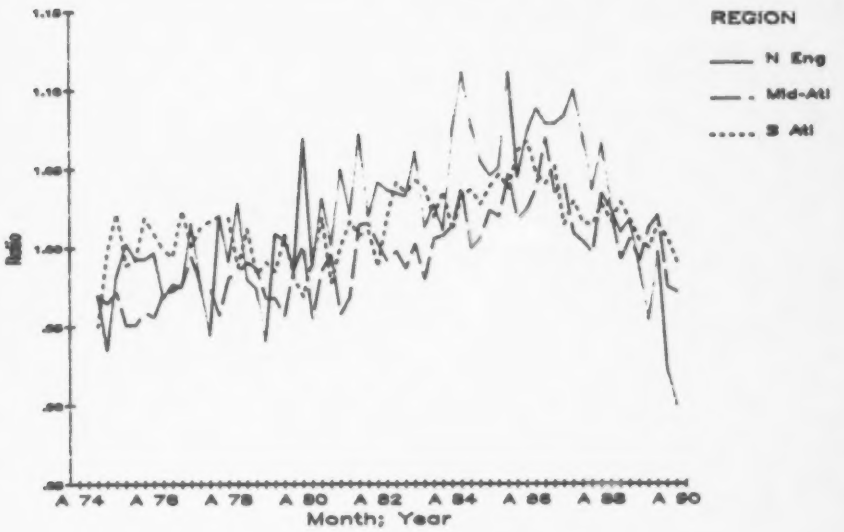
The two regions in which small business fortunes have undergone the most dramatic change are New England (Chart 7) and the West South Central, i.e., Texas, Oklahoma, Louisiana, Arkansas (Chart 9). New England's Index moved from the nation's lowest in the mid-70's to the highest in the mid-80's and back to the lowest in the late-80's and early-90's. It has trended down (seasonally adjusted) for five of the last six quarters. Within the last 12 months, New England's Index tumbled eight percent.

The West South Central region's Index followed a different, but equally tortuous path. It rose quickly in the early 80's, fell even

more quickly in the mid-80s, and is now back at the national average. Credit conditions, particularly availability, continue to cause problems for small business owners in the region.

Chart 7

RATIO OF THE REGIONAL INDEX OF SMALL BUSINESS OPTIMISM TO THE NATIONAL INDEX - NEW ENGLAND, MID-ATLANTIC, SOUTH ATLANTIC REGIONS



Other regional changes have been important but not as dramatic. Small business fortunes in the Great Lakes region (Chart 8) have shifted substantially, but more slowly than those of either New England or the West South Central. The slower change in the region's relative Index can be attributed the fundamental restructuring which is occurring (economic reason) and the fact that the region comprises a larger portion of the national average (mathematical reason). Nonetheless, the old Rust Belt has recovered from its 70's slide and the region's small business owners are now producing quarterly Indices that are among the nation's best.

The Mountain region has been the reverse (Chart 9). It's Index was generally above the national average during the 1970's and then dropped below during the 80's. Small business in the region appeared to hit bottom in 1987 and since has improved. The regional Index was back above the national average in April.

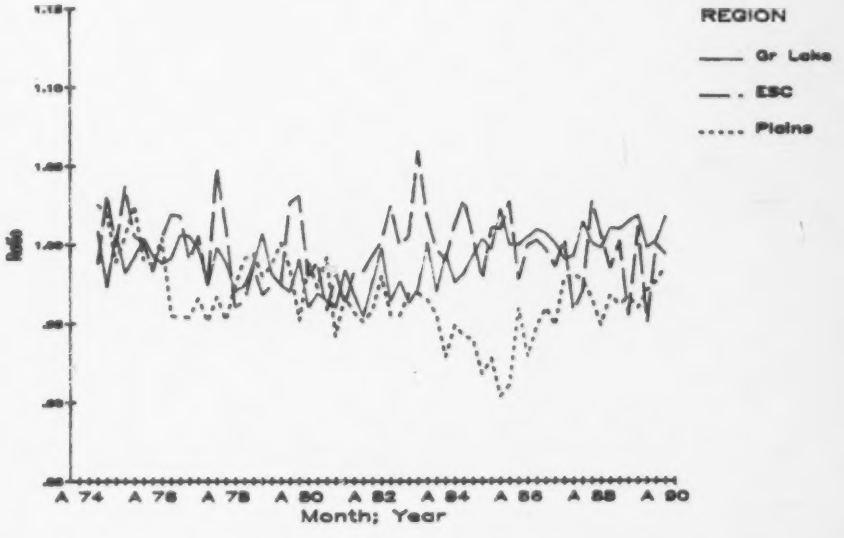
The Mid-Atlantic region has undergone a similar, but smaller change than has neighboring New England (Chart 7). Throughout the

1970's and early 80's, the Mid-Atlantic's Index was consistently one of the nation's poorest. But the recovery proved particularly strong for small businesses in the region. By 1987, the region's Index was one of the country's highest. Since, it has continued to edge lower.

The South Atlantic's Index has recently followed a course similar to that of other eastern regions (Chart 7). After several years of average or above-average performance, the Index was headed comparatively lower. The change appeared more gradual than elsewhere in the east. In fact, the Index changes produced by small business owners in the South Atlantic region have been consistently less pronounced. But the direction was unmistakable.

Chart 8

RATIO OF THE REGIONAL INDEX OF SMALL BUSINESS OPTIMISM TO THE NATIONAL INDEX - GREAT LAKES, EAST SOUTH CENTRAL, PLAINS REGIONS



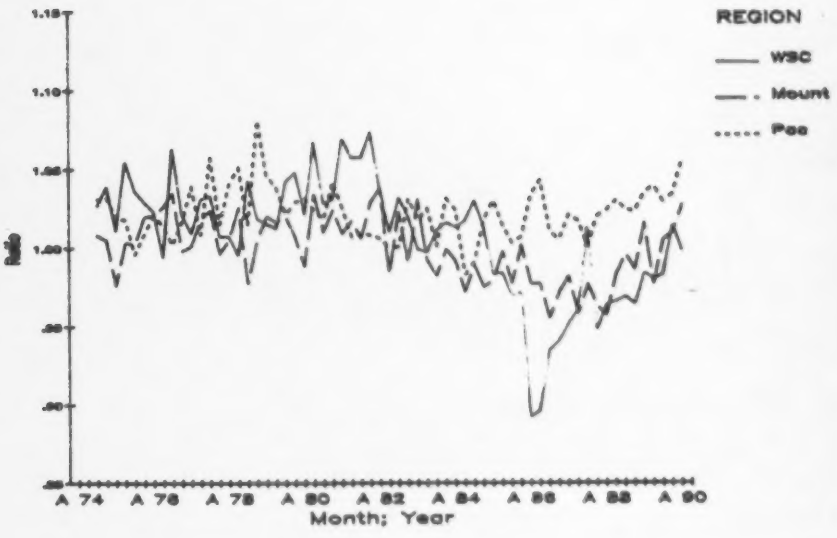
The East South Central region's Index has shown no particular direction over the sixteen years of data presented (Chart 8). It has bounced around the national average during most of the period. The Index reached its high in the early 1980's and since has been trending very gradually lower. Though still bouncing considerably, small business owners in the region have been generally less optimistic over the last two or three years than small business owners across the country.

The Pacific region (Chart 9) has enjoyed relative stability and at a favorable level. The region's small business owners typically produce the nation's highest Index though at times other regions have temporarily surpassed it.

The Plains has been the region where small business owners have been most likely to struggle (Chart 8). It's Index has consistently fallen below the national average. In 1985, as the most of the country enjoyed a strong recovery, small business in the Plains fared relatively poorly. Relative conditions have progressively improved over the last five years. Yet, the region's Index continues to fall below the national average.

Chart 9

RATIO OF THE REGIONAL INDEX OF SMALL BUSINESS OPTIMISM TO THE NATIONAL INDEX - WEST SOUTH CENTRAL, MOUNTAIN, PACIFIC REGIONS



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms April, 1990
	INDUSTRY									
Less than $50,000	7	5	1	1	7	12	6	18	6	8
$50,000-99,999	10	5	6	3	12	11	13	20	17	11
$100,000-199,000	17	14	7	6	15	23	13	17	23	16
$200,000-349,000	15	12	19	7	17	10	14	19	18	15
$350,000-799,999	20	19	19	18	22	22	14	13	17	19
$800,000-1,499,999	13	16	30	20	10	11	15	6	9	12
$1,500,000-2,999,999	18	12	7	16	7	6	10	3	7	8
$3,000,000 or more	7	16	8	27	7	3	12	2	3	9
Not Ascertained	3	1	3	2	3	2	3	2	1	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	327	273	86	190	693	125	179	334	164	2377
Percent of Firms	14	12	3	8	29	5	8	14	7	100%

* Less than 0.5%.

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms April, 1990
	INDUSTRY									
1	5	3	1	1	6	10	11	10	10	6
2	6	5	1	5	10	15	11	19	8	10
3 - 5	31	18	24	24	29	34	43	35	34	30
6 - 9	18	19	33	21	19	14	11	17	23	19
10 - 14	17	14	14	15	12	9	7	7	6	11
15 - 19	8	11	8	6	8	7	5	2	6	7
20 - 39	8	16	8	14	9	5	8	6	9	9
40 or more	6	14	9	13	6	5	4	3	4	7
No Answer	1	*	2	2	1	1	*	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please (circle) the appropriate answers or fill in the blanks.

1. What is your form of business organization?

   [1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify [your major business activity,] using [one] of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

   [1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, **etc.**)
   [2] Manufacturing and mining (including dairy processor, printer, publisher, **etc.**)
   [3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, **etc.**)
   [4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., **etc.**) 2
   [5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, **etc.**)
   [6] Agriculture, veterinarian, forestry, landscaping, fisheries, **etc.**
   [7] Financial, insurance, real estate, bank, savings & loan, **etc.**
   [8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, **etc.**
   [9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, **etc.**
   [10] Other (please describe)_____

3. What is the [single] most important problem facing [your business] today? (Please circle only **ONE** of the following):

   [1] Taxes [4] Interest rates & financing [8] Quality of labor
   [2] Inflation [5] Cost of labor [9] Shortage of fuels, materials or goods 3
   [3] Poor sales [6] Government regulation(s) & red tape [0] Other_____
   [7] Competition from large businesses (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

   [1] Yes [2] No [3] Uncertain 4

   4a. Why? (Circle **ONE** answer – ***most important reason***)

   [1] Economic conditions [3] Financing & interest rates [5] Other_____ 5
   [2] Sales prospects [4] Cost of expansion (please explain)

5. About the [economy in general,] do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

   [1] Much better [3] About the same [5] Much worse 6
   [2] Somewhat better [4] Somewhat worse [6] Don't know

6. During the last 3 months or calendar [quarter,] what were your [gross sales,] or revenues?

   [1] Under $12,500 [3] $25,000–49,999 [5] $87,500–199,999 [7] $375,000–749,999 7
   [2] $12,500–24,999 [4] $50,000–87,499 [6] $200,000–374,999 [8] $750,000 or more

   6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

   6b. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 9
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7. Were your [net earnings] or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

   7a. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 11
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

[1] Sales volume
[2] Labor costs
[3] Cost of materials
[4] Availability of materials
[5] Received higher prices for your product or service
[6] Financing costs
[7] Usual seasonal change
[8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

[1] Go up a lot
[2] Go up a little
[3] Stay the same
[4] Go down a little
[5] Go down a lot
[6] Don't know

13

9. How are your average selling prices now compared to three months ago?

[1] Lower now
[2] No difference
[3] Higher now
[4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

[1] Yes, raise prices
[2] Yes, lower prices
[3] No change
[4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

17

11. How many employees do you have full and part-time ***including yourself***?

[1] One
[2] Two
[3] 3–5
[4] 6–9
[5] 10–14
[6] 15–19
[7] 20–39
[8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

[1] Increased by ____ employee(s)
[2] Decreased by ____ employee(s)
[3] Stayed the same

19-21

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

[1] Yes
[2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

[1] Increase
[2] Keep the same
[3] Decrease

23

14. Do you have any job openings that you are ***not*** able to fill right now?

[1] Yes, for skilled labor
[2] Yes, for unskilled labor
[3] Yes, both skilled and unskilled labor
[4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

[1] Less than one month
[2] One month, but less than three months
[3] Three months, but less than six months
[4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

[1] Increase
[2] About the same
[3] Decrease
[4] Not appropriate

26

15a. If increase or decrease, by approximately what percent?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more

27

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

[1] Too large
[2] About right
[3] Too low
[4] Not appropriate

28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

[1] Add
[2] Keep the same
[3] Decrease
[4] Not appropriate

29

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

[1] Much higher [3] Same [5] Much lower [7] Inapplicable, do not borrow regularly 30
[2] Higher [4] Lower [6] Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay?_____% or Prime +_____ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles: [1] Yes 36
Additional Buildings: [1] Yes 37
Improved Buildings: [1] Yes 38
Additional Land: [1] Yes 39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

[1] under $1,000 [4] $10,000-19,999 [7] $100,000-499,999 40
[2] $1,000-4,999 [5] $20,000-49,999 [8] $500,000-999,999
[3] $5,000-9,999 [6] $50,000-99,999 [9] $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% [7] Don't know 43
[2] 3-4% [4] 7-8% [6] Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% 45
[2] 3-4% [4] 7-8% [6] Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located:

[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)